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TAGS: [ECON](#) [ENRG](#) [EPET](#) [IZ](#) [PREL](#)  
SUBJECT: AMBASSADOR MEETS MINISTER OF OIL DR. HUSAYN  
SHAHRISTANI

Classified By: AMBASSADOR RYAN CROCKER, E.O. 12958, REASONS 1.4 (B) (D)

11. (C) Summary: On April 4, Ambassador Crocker held his first meeting with Minister of Oil Dr. Husayn Shahrستاني. Shahrستاني briefly outlined the state of the oil industry, and admitted that Iraq should be pumping more oil. He blamed the failure to do so completely on the security situation, citing both insurgent attacks and corruption within the Strategic Infrastructure Battalions (SIBs) that guard the pipelines. The Ambassador stressed the importance of passing the Hydrocarbon Laws, both to Iraq's economic and political well being and to its international standing. Shahrستاني said that the Shura Council should complete its review of the framework Hydrocarbon Law within ten days, after which it will go to the Council of Representatives. The Revenue Management Law, Iraq National Oil Company reconstitution law and the Ministry of Oil reorganization law are drafted and before the Council of Ministers' Energy Committee for review. Shahrستاني was very critical of the KRG for not participating in the last several weeks of negotiation on the laws, and questioned whether they are actually trying to sabotage the process. He said that the GOI and the Region would simply negotiate their own contracts if the hydrocarbon laws are not enacted. The Ambassador asked Shahrستاني what emergency measures he was putting in place to alleviate fuel shortages. Shahrستاني said that he was not doing anything extraordinary, and followed with a description of his present and future plans to supply the different areas of the country from various domestic production and import sources. He noted that the KRG would have to inform the GOI of its fuel requirements and pay for the fuel from its budget, neither of which has been done. Most KR fuel would be imported from Turkey, and Shahrستاني accused the Turkish Ministry of Foreign Trade of being very unhelpful and Turkish companies of failing to meet their commitments. End Summary.

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State of the Oil Industry  
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12. (C) On April 4, Ambassador Crocker held his first meeting with Minister of Oil Dr. Husayn Al-Shahrستاني. Shahrستاني began by stressing the importance of oil to Iraq, and stated that importance is the reason that the industry is continually attacked. Shahrستاني admitted that Iraq should be pumping more oil, but that attacks by terrorists, insurgents and extremists prevented increased production.

13. (C) Shahrستاني said that the problem is local. In the South, he said that smuggling still exists, but is on a manageable scale that does not significantly impact production. The problem in the North is the infrastructure protection units, who, Shahrستاني asserted, are principally responsible for stealing the oil they are supposed to protect. Shahrستاني claimed that he told the Prime Minister 8 months ago that the Strategic Infrastructure Battalions (SIBs) were the wrong people to protect the pipelines, and that MNF-I CG Casey insisted that the units be retained to

protect the Bayji area infrastructure. He said MinOil is losing 500,000 barrels/day of production due to pipeline interdictions by the SIBs, and that he told the PM yesterday that he would shut down oil operations in the North if the units are not removed (Note: Shahrستاني's in-house units, the Oil Protection Force, have no better reputation than the SIBs in protecting oil infrastructure, and are considered the equal of the SIBs in diverting fuel). Shahrستاني said that the PM promised to order MOD to redeploy the units, after which Shahrستاني said he will set up his own protection force using local people.

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Hydrocarbon Legislation  
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¶4. (C) In answer to the Ambassador's query about the Hydrocarbon laws, Shahrستاني replied that reaching agreement on the framework law had required lengthy discussion and compromise. He said the law was still in the Shura (legal committee, estimating that the Shura will be finished and the law submitted to the Council of Representatives in 7-10 days.

He was optimistic about CoR passage, stating that all parties agreed with the law and that this agreement was reflected in the Council of Ministers vote approving the framework law draft. Shahrستاني added that the government was moving to counteract criticisms of the law in the media by holding workshops and conferences to educate both the public and parliamentarians.

¶5. (C) Shahrستاني professed to be worried by the KRG, which he claims has failed to participate in drafting the companion laws (Revenue Management Law, Iraq National Oil Company reconstitution law and Ministry of Oil reorganization law) to

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the framework law. He stated that he is worried that the KRG's strategy is to avoid negotiation in order to ensure the laws will not be enacted by the May 31 deadline that the GOI and KRG agreed upon in a confidential side letter signed at the time the two sides reached agreement on the framework law. This, according to Shahrستاني, will allow the KRG to claim they have the right to recommence independently negotiating oil exploration contracts in the Kurdish Region. The side letter forbids such negotiations prior to May 31, but Shahrستاني accused Ashti Hawrami, the KRG's Minister of Natural Resources and chief negotiator, of not only failing to come to Baghdad to work on the companion laws, but also of breaking the side letter agreement by spending his time in London negotiating contracts even now. Shahrستاني claimed that he has asked DPM Barham Salih (Kurd) to pressure the KRG to send a delegation to no avail. Shahrستاني said that if the Kurds fail to negotiate, the laws will not be passed, and both sides will simply start negotiating their own deals (with oil companies). (Comment: Shahrستاني himself has periodically been accused, including by members of his senior staff, of not wanting the hydrocarbon laws to go through, principally because they would radically alter MinOil's authority.)

¶6. (C) The Ambassador mentioned that a KRG delegation was due to arrive in Baghdad today or tomorrow, and asked Shahrستاني if he himself had been in contact with the KRG. Shahrستاني said he had not, and accused the KRG of promising to send a delegation to Baghdad just as he and the Prime Minister were leaving town on a trip to Japan and Korea on April 7th. Shahrستاني added that the GOI had proceeded without the KRG in drafting the companion laws. Shahrستاني did not think the Kurds would have a problem with the INOC law since it was based on the terms set forth in the framework law.

¶7. (C) The Ambassador stressed that the hydrocarbon legislation was very important to all of us at every level - economic, political and as an expression of national unity. He added that the laws were of high international importance, and would be viewed outside Iraq as a signal that the GOI had

taken a significant step. The Ambassador said that he had been engaged on the hydrocarbon law since his arrival, and had been assured that the KRG negotiators were on their way.

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Fuel Shortages  
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18. (C) The Ambassador asked Shahrستاني what emergency steps he had taken to increase fuel imports to alleviate shortages.

Shahrستاني replied that he had done nothing extraordinary, and mentioned that the government had no money in the 2007 budget to subsidize fuel imports. MinOil was required to balance its own fuel budget, which he claimed they were doing successfully, using proceeds from both domestic production and imports. Shahrستاني said that the Kurdistan Region was not his problem. He would contract for fuel with Turkey, but the KRG would have to tell him how much they needed and pay for it from their share of the federal budget. He said that so far they have done neither. Shahrستاني said that they were negotiating with Syria and Turkey to import fuel for Mosul. Diyala was supplied from imports from Iran. The south by domestic production and seaborne imports and Anbar by Bayji refinery. He stated that Bayji, since he installed a new director general, was operating at almost full capacity. (Note: IRMO daily reports show the three refineries at Bayji operating at various levels, with none of them above 75% capacity. Bayji is also frequently shut down due to electric power failures, interdictions and an inability to move Heavy Fuel Oil offsite.)

19. (C) Shahrستاني said they have not been bringing fuel in from Kuwait lately, although the problem there (unspecified) is almost resolved. With regard to imports from Turkey, Shahrستاني said that the Turkish Ministry of Foreign Trade (MFT) was very unhelpful, and the Turkish companies were unable to meet their commitments. He professed not to know the exact reason for this, surmising that the problem was KRG related and was half political and half corruption.

(Comment: Iraq imported more fuel from Turkey last year than from any other country. The Turks stopped shipments in September due to non-payment of significant arrearages for fuel delivered in late 2005 and early 2006. When fuel shipments resumed in November 2006, the Iraqi State Oil Marketing Organization (SOMO) claimed MFT was late issuing export permits to two of four companies contracted to export fuel to Iraq. That notwithstanding 100-200 fuel trucks per day were crossing the border in January when MinOil cut off the Turkish contracts. In general, Turkey has supplied a great deal of fuel to Iraq when Iraq has paid its bills.)

110. (C) The Ambassador asked Shahrستاني if he was supplying

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crude oil to Jordan. Shahrستاني said that this was a security problem. He said he had told the governor of Anbar that if he wanted to boost his economy, MinOil would give him a trucking contract to move oil to Jordan. Shahrستاني added that to move crude oil across Anbar, it would be necessary to protect the pipelines from Kirkuk to Hadithah. From Hadithah, the oil could be trucked to the Jordanian border. He reiterated that protecting the pipelines was problematic due to SIB corruption, and the solution was to move them out of the area.

CROCKER